

**OFFICE OF AUDITS AND COMPLIANCE**

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DEC 19 2008

Chuck Patillo, General Manager  
Prison Industry Authority  
560 E Natoma Street  
Folsom, CA 95630-2200

Dear Mr. Patillo:

The California Department of Corrections and Rehabilitation's (CDCR), Office of Audits and Compliance (OAC), Audits Branch, completed a compliance audit of the procurement practices at Prison Industry Authority, which includes the audit of contracts and CAL-Card purchases. The audit covered the period of January 1, 2007 through February 28, 2008. Fieldwork was performed during the period of April 1, 2008 through September 5, 2008.

Enclosed is the preliminary report. Please review the report and submit your written comments to me within 30 days from the date of this letter. The Audits Branch will incorporate your comments into the final report. If you do not submit your written comments within 30 days, the draft report will be issued as final.

Should you have questions or require additional information regarding the contents of this report, please contact Patricia Weatherspoon, Senior Management Auditor, OAC, at (916) 358-2129.

Sincerely,

A handwritten signature in blue ink, appearing to read "R. Krupp", written over the printed name of Richard C. Krupp.

RICHARD C. KRUPP, Ph.D.  
Assistant Secretary  
Office of Audits and Compliance

Enclosure

cc: Patricia Weatherspoon, OAC  
Corinne Manley, PIA

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COMPLIANCE AUDIT  
PRISON INDUSTRY AUTHORITY:  
PROCUREMENT PRACTICES



## PRELIMINARY REPORT

Prepared by:

California Department of Corrections and Rehabilitation  
Office of Audits and Compliance

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September 2008

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# PRISON INDUSTRY AUTHORITY: BUSINESS SERVICES AND ACCOUNTING

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# EXECUTIVE SUMMARY

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The California Department of Corrections and Rehabilitation's, Office of Audits and Compliance (OAC), Audits Branch, completed a compliance audit of the procurement practices at Prison Industry Authority (PIA), which includes the audit of contracts and CAL-Card purchases. This audit was for the period of January 1, 2007 through February 28, 2008.

The significant issues are summarized below and are discussed in more detail in the Findings and Recommendations section of the report.

## Contract Procedure Issues

- Contracts were written for more than the winning bid amount.
- Contracts were being signed by staff not authorized to approve contracts.
- Contracts were being approved after work had already started.
- Sole Source Justifications were missing, and some contracts didn't appear to meet sole source requirements.
- There were contracts that were missing bids, or the bids were obtained after the contract approval.
- Contract payments were being made prior to the contract execution/approval date. For example, a \$573,000 payment was made to INFOR Global prior to the contract being approved.
- Contract funds were completely expended before the work was completed.
- Three contracts were amended for more than 30 percent of the original value. One contract was amended for more than \$250,000.

## CAL-Card Practice Issues

- Some CAL-Card purchases and payments are not being authorized or approved.
- There were inappropriate purchases (i.e., computer equipment) using the card.
- Split orders were made which circumvent the purchasing dollar limit.

- CAL-Card participants are not adequately trained.
- The CAL-Card manual needs to be updated.
- Vehicles assigned to PIA were found abandoned on the grounds of CDCR and PIA.
- Vehicles aren't being maintained, and mileage logs are either missing or improperly completed (PIA, headquarters, and California Institution for Men (CIM)).
- Written quotes were not being obtained for purchases exceeding \$1,000.
- Milk crates and transport dollies are not being returned, resulting in repeated purchases of these items and complaints of food items being left on the floor.

#### Procurement Practice Issues:

- Purchase Orders (PO) greater than \$25,000 at California State Prison (CSP), Lancaster were not processed and approved through the PIA procurement office.
- Conflict of Interest statements need to be updated.
- Service and Expense orders were being approved above the \$5,000 limit.
- Split POs were made which circumvent the purchasing dollar limit authorization levels (\$25,000 and \$75,000).
- POs for Grainger (major PIA vendor) had their own unique numbering system, making it difficult to account for them. They were also processed in a different manner than other POs (different purchase forms, requisition form not being used, POs not entered into the Enterprise Resource Planning Computer System (ERPIx)).
- Of the 99 POs reviewed, 33 did not have signed quote sheets.
- Tracking numbers used to track POs were being duplicated; in other words, two different purchase orders would have the same tracking number.
- Of the 118 sole source POs reviewed, 41 did not have Sole Source Justification provided.

## BACKGROUND

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The CDCR, OAC, Audits Branch completed a compliance audit of the procurement practices at PIA, which includes the audit of contracts and CAL-Card purchases. This audit was for the period of January 1, 2007 through February 28, 2008.

Fieldwork was performed during the period of April 1, 2008 through September 5, 2008.

The audit was performed at the request of the General Manager. The scope of the audit was to:

- Determine whether PIA is complying with Prison Industry Board's Policies and Procedures approved in May 2005.
- Review procurement practices, contract procedures, and CAL-Card process to determine whether PIA is in compliance with the laws, rules, and regulations established by the PIA Board as well as the State of California.
- Provide recommendations for any improvements to the procurement practices, contract procedures, and CAL-Card practices.

## SCOPE AND METHODOLOGY

The review was conducted during the period of January 1, 2007 through September 5, 2008 and was conducted in accordance with the Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors, Inc.

The following procedures were performed:

- Reviewed State and PIA policies, procedures, and regulations relative to Procurement.
- Interviewed and discussed policies and procedures with appropriate staff.
- Testing of contracts, CAL-Card purchases and POs to determine whether control systems are operating effectively and that policies and procedures are being followed.

The audit included testing of records and documents at Accounting Services (AS) and Business Services Section (BSS) and the following institutions:

- CIM
- California Institution for Women (CIW)
- Central California Women's Facility
- Valley State Prison for Women (VSPW)
- California State Prison, Corcoran (CSP, Corcoran)
- California Substance Abuse Treatment Facility (CSATF)

## **CONCLUSION**

The Audits Branch review disclosed weaknesses in Contracts, CAL-Cards, and POs. These weaknesses are described in the Findings and Recommendations Section.

The Findings and Recommendations of this report are based on fieldwork performed during the period of April 1, 2008 through September 5, 2008.

When issues were discovered and PIA did not have policy and procedures to address the issues, the Audits Branch used the best practice from the State Contracting Manual (SCM) issued by Department of General Services (DGS). The Audits Branch recommends that PIA update their policies and procedures to include the best practices.

During the fieldwork, corrective action was taken on some of the issues. The issues that are corrected were verified by the Audits Branch and are acknowledged in the body of the report. Any issues that were corrected subsequent to fieldwork are addressed in PIA's response to the draft audit report.

To ensure that corrective action was taken, the Audits Branch suggests that the PIA Central Office submit a report on the status of corrective action(s) both six months and one year from the date of the transmittal letter of this report.



## FINDINGS AND RECOMMENDATIONS

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The following findings are regarding PIA's Contract Procedures, CAL-Card Practices, and Procurement Practices.

### **Contract Procedure Issues**

#### **Finding 1 Inappropriate Contingency Amount**

Contract amounts were written for more than the winning bid amount. Specifically, BRCO Constructors, Inc. cost sheet/bid amount was \$1,398,000. However, the contract was approved for \$1,747,500. The increase of \$349,500 or 25 percent is above the winning bid amount. According to the contract analyst, it is customary to add 10-25 percent as contingency above the actual cost sheet to fund a contract in case of project over run and to avoid future amendments.

#### **Criteria:**

State Contracting Manual, Chapter 2, Section 5, states: “. . . consideration (the contract must clearly express the maximum amount to be paid and the basis on which payment is to be made: e.g. a fixed amount regardless of time spent, billing based on time spent at a specified rate plus actual expenses, or cost recovery).”

A good business practice implies that the cost sheet submitted, during the bidding process, is the cost that PIA should obtain as best value to perform business.

#### **Recommendation:**

The Business Service Section and program managers should ensure that the contract awarded does not exceed the bid sheet.

#### **Finding 2 –Outdated Signature Authority/Contract Approval**

An analysis of the signature authority binder disclosed that:

- The BSS's list of staff authorized to sign contracts and POs was not current.
- The signature authority form was not updated as required in their International Standards Organization (ISO) procedures.

During the fieldwork, the BSS updated their signature authority listing, and the signature authority form.

Further, a review of the basic elements of a contract revealed that 6 out of 39 contracts examined were not signed by an authorized staff.

In addition, 10 out of 14 contracts were signed after the specified start term of the agreement, and program managers allowed the work to start before the contract was executed.

**Criteria:**

BSS-P-W003, Signature Authority Dollar Limits Work Instructions, states: "Signature Authority – CALPIA's authority to enter into contracts and make purchases is limited to those officers who are authorized in writing to do so by the General Manager. A written record of all persons authorized to sign contracts, transmittal, and purchase documents must be maintained by the Business Service's Section. The General Manager is held accountable for the exercise of delegated authority, therefore, all persons receiving delegations shall keep their manager informed on all decisions that may be of a sensitive nature or have an impact on CALPIA."

BSS-P-W003 paragraph 4.6.1.2, procedures for purchases of \$24,999 and under states: ". . . managers listed [Field – Administrator/Lead Manager/manger; Central Office – Assistant General Manager] may delegate signature authority to other subordinate managerial employees. If there is NO subordinate managerial employee at the location, then delegation may be made to an employee in a supervisor classification. All delegated employees must have a signature authority form on file with BSS."

BSS-P-W003, paragraph 4.6.2.2, procedures for purchases of \$25,000 to 74,999 states: ". . . the Procurement Officer or designee is responsible for approving the procurement of goods or services within this dollar limit."

BSS-P-W003, paragraph 4.5.3.1, procedures for purchases of \$75,000 and over states: ". . . the Procurement Officer or designee submits service or purchase documents for approval to the Assistant General Manager, Administration."

BSS-P-W003, procedures 4.3, states: "The BSS maintains the list of persons with authorized signatures who can sign contracts, transmittals, and purchase documents. All delegated employees must have a Signature Authority form (BSS-P0F003) on file."

The SCM, Chapter 2, Section 6, states: ". . . a state agency's authority to contract is limited to those officers who either have statutory authority or have been duly authorized in writing by one who has statutory authority."

PIA's General Provision, item #5, states: "This Contract has no force or effect until signed by both parties. Contractor may not commence performance until approval has been obtained."

The SCM, Chapter 2, Section 5, states in part: ". . . a contract to be valid the contract must contain signature by a person for each party who is authorized to bind that party."

SCM, Chapter 4, Section 9.D.2, states in part: ". . . the contractor should be warned not to start work before receipt of the approved contract."

### **Recommendations:**

PIA should ensure that:

- The signature authority list and the signature form are updated with the most recent staff allowed to sign.
- Only authorized staff can sign into contracts.
- Program Managers do not allow contractors to begin work prior the contract being executed.

### **Finding 3 Inadequate Sole/Single Source Justifications**

According to the BSS-P-F004, "Sole source is when only one supplier can provide the specified goods or services.

Single Source/Non-Competitive Bid (NCB) is when there is only one vendor available who can provide the specific goods or services to meet CALPIA's unique needs (for example: CALPIA requires a brand name that is compatible with existing equipment or product; or only one contractor is available in the geographic region who can perform a complex or unique service), or only one vendor can offer CALPIA a price for specified goods or services."

The Audits Branch reviewed the sole source and single source documents for 12 contracts. The review disclosed that 7 of the contracts had the following issues.

1. Jeffery Powers - For one contract, no Sole Source Justification was found in the contract file.
2. The other six contracts did not appear to meet the requirements of a sole source/single source – NCB contract. These contracts do not appear to be unique or complex. Other consultants could perform the services.

- Matt Powers (single source): PIA entered into a contract with Mr. Powers for the Inmate Employability Program (IEP) to create a successful employment opportunity of the Prison to Employment Plan. The services obtained under this contract did not appear to be unique. The Sole Source Justification requires only one vendor who can provide the specific goods or services to meet CALPIA's unique needs (for example: CALPIA requires a brand name that is compatible with existing equipment or product, or only one contractor is available in the geographic region who can perform a complex or unique service), or only one vendor can offer CALPIA a price for specified goods or services. Mr. Powers' services can be performed by other contractors.

Further, the Single Source Justification, Section B, Price Analysis, states: ". . . a contractor similar in nature could be obtained through the use of Cooperative Personnel Services. However, the administrative overhead associated with utilizing CPS was 10-15 percent additional cost." In addition, the Single Source Justification states: "CALPIA contacted several consultants in an unsuccessful attempt to identify another person with the unique knowledge and experience required to successfully complete this project at the same rate as this contractor." Based on the requirements in the ISO manual regarding the Sole Source Justification, PIA did not provide adequate documentation.

- Khich Nguyen (sole source) This contract was to obtain a vendor for the heating, ventilation and air condition services. The Sole Source Justification indicated that he is the only one available. There was a hand written note on the justification stating: ". . . contract manager told to go to DGS Small Business website next time." The statement implies that PIA did not research other sources for the best value.
- Ashby Consulting Group (single source): The IEP entered into a contract to obtain the resource guide for parolee's to use before leaving the institutions. The program manager stipulated a cost saving of \$200,000. However, there is no support regarding the cost saving. Further, the hourly rate stated in Contract Number SA 9261.0633 was established at \$155 as opposed to \$90 in previous contracts, an increase of \$65 or 72 percent (\$155 - \$90 = \$65).
- Both Kitchell and MK2 Engineering (single source/continuation of prior project): The two contracts were executed using the

same single source for the same period. For example: Kitchell and MK2contract periods were from August 1, 2007 through January 31, 2008. Both Justifications have the same explanations.

- A.M. Stephens (single source): The contract was written to obtain a modular building in Chino. The program manager submitted the Single Source Justification after the work had already started. The Single Source Justification stated that the work had already commenced and PIA provided the following reasons for the justification:
  - “Adhering to the strict timelines dictated by the institution was critical to the family reunification mission of CIW.
  - This contractor could accommodate the extremely short timeframe.
  - The contractor offered competitive pricing.
  - The contractor was familiar with PIA’s modular product, which is quite unique in the industry.

For the reasons listed above, it was in the best interest of the State.”

Further, the Single Source Justification was approved on the same date the contract was executed. For example, the contract was approved on April 24, 2007 and the Sole Source Justification was approved on April 24, 2007. Since PIA awarded the contract the same day that the justification was approved, adequate procedures and processes were not followed as required in the ISO manual.

Also, the Audits Branch found that 8 of 10 sole source contracts were unapproved by the chief counsel as required in the ISO procedures.

#### **Criteria:**

The ISO states: “Because it restricts competition, the burden of proof to justify sole source procurement falls to the requester who must prepare a sole source justification document.” Sole sourcing is not appropriately justified or when used as a method of selecting a preferred vendor or when invoking price.

According to the ISO procedures, for sole source reviews, the reviewing panel will consist of the Chief of BSS, Staff Manager I BSS, PIA Chief Counsel, and any other staff as appropriate.

ISO Manual, Section BSS-P-W004, paragraph 4.2.2.1, states: “Supporting documentation for justifying a sole source purchase:

- 4.2.2.1.1 Market research to substantiate no competition
- 4.2.2.1.2 Evaluation of other possible goods or services, which might meet requirements
- 4.2.2.1.3 Price and Cost Analysis (Fair and Reasonable)
- 4.2.2.1.4 All efforts to solicit competitive bids
- 4.2.2.1.5 Clearly defined reasons as to why this purchase is necessary
- 4.2.2.1.6 Any other information necessary to support purchase.”

ISO Manual, Section BSS-P-W004, paragraph 4.2.2.2, states: “Sole Source Review Process:

- 4.2.2.2.1 A request for sole source purchase and supporting justification document shall be submitted to a review panel for consideration and evaluation.
- 4.2.2.2.2 The reviewing panel will consist of the Chief of BSS, Staff Manager 1 BSS, PIA Chief Counsel, and any other staff as appropriate. Following completion of the review and evaluation for sufficient justification, the package will either be forwarded to approval authority or returned to requester for additional information.
- 4.2.2.2.3 Approval authority: Sole source requests will be approved or denied by the Chief, Administrative Services Division and/or Chief Assistant General Manager.”

The SCM, Chapter 5, Section 70.C, states in part: “. . . a non-competitively bid contract justification is required unless specifically exempted by statute or policy.” Further, SCM, Chapter 5, Section 70.D, states: “A contract cost justification which addresses the appropriateness or reasonableness of the contract cost, is also required if the contract is exempt from the NCB process, or if fewer than three competitive bids or proposals have been received. When the contract is submitted to DGS/[Office of Legal Services] OLS for approval, the supporting documents should address the following factors:

1. The effort made by the awarding agency to solicit competitive bids, if appropriate;
2. Cost information (budget), which is in sufficient detail to support and justify the cost of the contract;
3. Cost information for similar services (any differences between the proposed services and similar services should be noted and explained);
4. Special factors affecting the costs under the contract; and
5. An explanation of why the awarding agency believes the costs are appropriate.”

Contract number SA 9261.06033, Ashby Consulting Group, Attachment 1-Cost Sheet, states: "Contactor will bill at a \$155.00 hourly rate."

**Recommendations:**

PIA should ensure that:

- Program Managers comply with the ISO procedures.
- All contracts are provided to the legal counsel for approval.

**Finding 4 Unsupported Bids**

An analysis of the contracts disclosed that the following four contracts did not have bids.

- The Modular Building Enterprise (MBE) Program Manager entered into one contract with A.M. Stephens for the modular building in Norwalk – JB Clark High School. The Program Manager requested other quotes after he awarded the contract and the contractor started the work. For example, the A.M. Stephens Contract number SA08.72.06023 was approved on April 25, 2007. However, the bids were obtained on April 24 and 25, which is the same day that the contract was approved. Therefore, PIA did not follow the procedures and processes required in the ISO manual.
- The ISD's Program Manager did not have adequate documentation that bids were obtained for three contracts with Richard Brown. The Audits Branch discussed the issue with the ISD staff; however, ISD staff were unable to provide any supporting documentations.

**Criteria:**

BSS-P-W004 procedures state: "Informal Competitive Bids – Purchasing agents shall obtain a minimum of three written competitive quotations for purchases. If less than three actual quotes are received, document the reason(s) why less than three quotes were obtained. Purchasing Agents shall submit the required form and include recommended vendor, with all supporting documentation to the designated approval authority (Assistant General Manager/ Administrator or Procurement Officer or designee, dependent upon the amount of purchase)."

BSS-P-W001, Unauthorized Procurement Purchases, state: "All purchases shall be made in conformance with the BSS-P-P001, Procurement Procedures. Specifically, purchase orders or service contracts shall be issued prior to ordering supplies, equipments, and services and not "after the fact" for work already done or materials already ordered.

Further, BSS-P-W001 states: “. . . failure to follow these procedures may result in one or more of the following:

- Invoices for goods without an authorized purchase order (or approved equivalent document) may result in the goods being returned to the vendor for refund.
- The person making the unauthorized purchase may be held personally liable for the costs of the purchase or contract.
- Disciplinary action may be taken for unauthorized purchase or attempting to complete a transaction without proper authorization and approval.”

SCM, Chapter 1, Section 06, states: “Statutes, regulations, and policies governing the state's contracting process are designed to protect the state's interests. Therefore, it is not appropriate to seek artificial exceptions to contracting requirements or to seek loopholes. In particular, circumvention of required competitive bidding or contract approval is unlawful. (Public Contract Code (PCC), Section 10340)

**Recommendation:**

The PIA should ensure that Program Managers obtain quotes or bids prior to awarding a contract.

**Finding 5 Contract Payment Issues**

1. PIA made payments on services that were performed prior to the contract execution date for 21 of 33 contracts reviewed. Further, 14 of the 21 contracts had upon approval date which means services should not have been initiated until the contract was executed.
2. PIA made a payment for services that were performed prior to notice to proceed under an architectural and engineering contract (a retainer contract) to obtain architectural services.
3. PIA paid invoices for two contracts without 1) adequate substantiation for services and 2) the date the services were provided. Specifically:
  - The consulting contract for Mr. Powers was paid without supporting detail of services and date when services were provided.
  - Richard Brown’s contracts were paid without adequate support such as the period the services were provided. See monitoring item #8 for more detail.



4. PIA did not withhold retention on two modular construction projects.
5. PIA did not take advantage of the discount for four of the six contracts. Invoices were paid at the full amount.
6. PIA paid a contractor for travel cost when the contract did not require for travel reimbursement. PIA amended another contract to add the travel language.
7. The rate for two contracts was incorrectly paid. Specifically:
  - The rate for the "L.A. Hearne" new contract was \$2.05. However, the Accounting Technician processed the invoice based on the old rate of \$1.98.
  - The rate for the Nulaid Food was \$.34 for the new contract. However, the amount paid was based on the old rate of \$.32.
8. PIA paid INFOR Global contractor \$573,000 prior to the contract being executed.

**Criteria:**

BSS-P-W001, states in part: ". . . all purchases shall be made in conformance with the BSS-P-P001 Procurement Procedures. Specifically, purchase orders or service contracts shall be issued prior to ordering supplies, equipment, and services and not "after the fact" for work already done or materials already ordered."

Further, BSS-P-P001, states: "Failure to follow these procedures may result the goods being returned to the vendor for refund, or the person making the unauthorized purchase may be held personally liable for the cost of the purchase or contract."

PIA's General Provision Item #5, Approval, states: ". . . this contract has no force or effect until signed by both parties. Contractor may not commence performance until approval has been obtained."

Public Contract Code, Section 10346, states: "Contracts may provide for progress payments to contractors for work performed or costs incurred in the performance of the contract. Not less than 10 percent of the contract amount shall be withheld pending final completion of the contract. However, if the contract consists of the performance of separate and distinct tasks, then any funds so withheld with regard to a particular task may be paid upon completion of that task."

Further it states: “No state agency shall make progress payments on a contract unless it first has established procedures, approved by the department, which will ensure that the work or services contracted are being delivered in accordance with the contract.”

PIA’s General Provision, item #2, AMENDMENT, states: “No amendment or variation of the terms of this contract shall be valid unless made in writing, signed by the parties and approved as required. No oral understanding or agreement not incorporated in the contract is binding on any of the parties. Change orders amending, modifying, or terminating the contract, including any modification of the compensation payable, may be issued only by the authorized CALPIA representative.”

State Administrative Manual (SAM), Section 8113, states: “Invoices will be paid by revolving fund checks only when a discount of at least \$5 can be taken and where the discount percentage allowed is at least one-half of one percent, and when the discount period is too short to permit taking advantage of the discount if payment is made by warrant. If time permits, agencies should always submit claims to the State Controller's Office for payment by warrant. The State Controller's normal time for processing a claim is five days from date of receipt, but agencies may request expeditious audit and issuance of the warrant. In this case, the State Controller's maximum processing time is three days from date of receipt.”

SAM, Section 8422.1, states: “. . . prior to preparing a claim schedule, agencies will determine that cash discounts have been taken.”

PIA’s General Provision, item #40, INVOICES, states: “. . . rates: the contractor is bound to honor all rates set forth on the Price Sheet as the maximum it may charge CALPIA, but rate reductions during the term of the contract are permitted. The contractor must give CALPIA written notice of the reduced rate.”

A good business practice implies that no payment should be made until services are provided.

### **Recommendations:**

The PIA should ensure:

- All contracts are executed before making any payments.
- All invoices have adequate support for the services provided during the period.
- Retention is withheld and paid at the completion of the project.

- Discounts are taken.
- Payments are made for services within the contract provisions.
- Invoices are paid from the appropriate contact when there is a new contract.

#### **Finding 6 Inadequate Contract Monitoring**

Program Managers are not adequately monitoring their contracts. They did not:

1. Develop and write a clear, concise, detailed description of the work to be performed. For the A.M. Stephens contract, the contract manager did not write the scope adequately. A letter dated May 29, 2007 from Mr. Taylor to Mr. Fitzgerald, states: "There is a major error of omission in regards to our PIA contract...we failed to notice that the scope of their bid for services did not include all the services needed for the building completion." As a result, the contract was amended for \$280,000, over 40 percent of the original cost.
2. Review the draft contract for contract provisions, scope of work, technical requirements, completion dates, benchmarks, timelines, estimated quantities, dollar amounts, and final product adequately. Specifically, Service West, Inc. contracts were approved without sufficient funds. For example, the contract for Region 2 was approved for \$1,398,690. However, the contract per audit should have been for \$3,648,756. The following table illustrates the total contract amount per cost sheet during the contract period, the approved contract amount, and the contract amount per audit.

<b>Region</b>	<b>Cost Sheet Per Year</b>	<b>Contract Period</b>	<b>Approved Contract Amount</b>	<b>Contract Amount Per Audit</b>
Region 2	\$1,216,252	3 years	\$1,398,690	\$3,648,756
Region 3	\$1,214,660	2 years	\$1,226,806	\$2,429,320

3. Avoid allowing the contractor to begin work before the contract is executed by both parties.
4. Maintain contract documentation. For the Richard Brown contracts, the ISD did not keep supporting documentation about other bidders.
5. Monitor the contract to ensure compliance with all contract provisions. Specifically, the Program Manager approved travel that was not in compliance with the contract provisions for the Norman Vierra contract.

6. Assess and request amendments, renewals, or new contracts timely. Also, the program managers did not allow sufficient time to process and execute such changes before the contract expired or funds were depleted in order to prevent a lapse in service. The Audits Branch discovered that the program manager did not monitor expenditures. Therefore, new contracts were required after the fact.
7. Monitor contract expenditures to ensure there were sufficient funds to pay for all services rendered as required by contract. Specifically, the contracts for Kitchell and MK2 had cost overrun. The contractors were performing multiple jobs, and they did not have funds to cover the projects assigned. The contracts were not amended timely to allow for the completion of the project. The contracts funds were exhausted before the work was completed. Therefore, the Program Managers requested a new contract.
8. Avoid approving contract expenditures without adequate substantiation for the services provided. Specifically, Richard Brown's invoices were approved without 1) the time period for the service and 2) verifying the accuracy of the hours worked.
9. Complete the Contractor Evaluation form, STD 4, for consultant services for contracts of \$5,000 or more. Specifically, the Matthew Powers' contract ended on June 30, 2008, and the contract analyst requested the evaluation in October 2008.

**Criteria:**

In the absence of PIA's own policy, the Audits Branch used the best practice from the SCM issued by GDS to address the issues. They are as follows:

SCM, Chapter 9, Section 4, states: "Typical responsibilities of the contract manager are as follows:

- Develop and write a clear, concise, detailed description of the work to be performed.
- Review the draft contract for contract provisions, scope of work, technical requirements, completion dates, benchmarks, timelines, estimated quantities, dollar amounts, and final product.
- Notify the contractor to begin work.
- Maintain contract documentation.
- Monitor the contract to ensure compliance with all contract provisions: Assess and request amendments, renewals or new contracts as required allowing sufficient time to process and execute such changes before the contract expires or funds are depleted in order to prevent a lapse in service.

- Monitor contract expenditures to ensure there are sufficient funds to pay for all services rendered as required by contract.
- Complete the Contractor Evaluation form, STD 4, for consultant services contracts of \$5,000 or more.”

SCM, Chapter 9, Section 5, states in part: “. . . the contract manager is not authorized to take the following actions:

- Instruct the contractor to start work before the contract is executed and approved.
- Change the description or scope of work of the contract.
- Direct the contractor to do work that is not specifically described in the contract.
- Sign the contract as the agency's authorized signature unless authorized in writing.
- Sign any contractor's contract form.
- The contract manager must not authorize payment to the contractor for any work not performed satisfactorily.
- In addition, the contract manager is not authorized to do the following without an executed and approved contract amendment in place:
  - Extend the time period of the contract.
  - Allow the contractor to incur costs over the original limit set in the contract.”

### **Recommendations:**

The PIA should ensure that:

- They develop and write a clear, concise, detailed description of the work to be performed.
- Contracts are reviewed adequately for accuracy.
- The contractors do not begin work before the contract is executed by both parties.
- Contract documentation is maintained.
- Contracts are monitored adequately, expenditures are within the contract amount, and invoices are adequately supported.
- Contracts are amended or renewed in a timely manner.
- Program Managers are provided with adequate training to monitor project costs and contracts.

## **Finding 7 Amendments Prepared Inadequately**

The Audits Branch reviewed six contracts that were amended. Since ISO is silent regarding amendment procedures, the Audits Branch used the DGS requirements as a guide.

- Three contracts were amended for more than 30 percent of the original contract value of which one was also for more than \$250,000.
- One contract was amended after the contract expired. Contracts must be amended prior to expiration.
- One contract was modified to adjust the start date. The contract requires that services begin after contract approval. However services started prior to the contract being executed. As a result, the contract was amended to pay the vendor for services prior to the contract approval.

### **Criteria:**

In the absence of PIA's own policy, the Audits Branch used the best practice from the SCM issued by GDS to address the issues. They are as follows:

SCM, 3.09, Section A.2, states in part: ". . . amendments must be entered into before the expiration of the original contract."

SCM, 5.80, Section B.2, states in part: ". . . contract amendment meet the following to be exempt from competitive bidding:

- a. An amendment to a contract that only extends the original time for performance for a period of one year or less.
- b. Amendments to existing contracts under the same terms and the same or lower rates, where a protest or other legal action delays the award of a new contract. These amendments should only last during the period the protest or legal action is pending until a new contract can be executed, but in no case shall the amendment extend beyond six months.
- c. Amendments to an existing competitively bid contract was and if the additional years or additional tasks were anticipated and evaluated in the Invitation for Bids/Request for Proposal.

- d. Amendments to an existing competitively bid contract if the original contract did not allow for additional years.

An approved NCB is not required for the first amendment, if the amendment adds no more than 30% of the original contract value, not to exceed \$250,000, and there is no change to the scope of work.”

**Recommendations:**

- The BSS should ensure that amendments are within the required percent of the original contract.
- The BSS and the project manager should work together to ensure that the contracts are amended and entered into before the expiration of the original contract.
- The project manager should ensure that the contractor does not provide services until the contract has been executed.

**Finding 8** Requirements Not Met for Consulting Contracts

- PIA did not prepare the vendor performance report for one of the contracts that expired as required by ISO.
- PIA did not ensure that consultants prepare the Conflict of Interest statement, Form 700 as stated in the General Provisions.

**Criteria:**

BSS-P-W010, states in part: “. . . the Vendor Performance Report (BSS-P-F002) is to be submitted by the Contract Manager to BSS for good or poor vendor performance.”

PCC, Section 10367, states: “(a) Each contractor shall be advised in writing on the standard contract form that his or her performance, or the firm's performance under the contract will be evaluated. (b) The department shall use standardized evaluation forms and make them available to every state agency. Each state agency shall use post-evaluation forms to evaluate all consulting services contracts totaling five thousand dollars (\$5,000) or more. The department shall devise standards and criteria for the post-evaluation forms. These standardized post-evaluation forms shall consist of a form for assessing the need and value of the consulting services contract to the state, and a form for assessing the usability and utility of the completed consulting services contract.”

PCC, Section 10369, states: “(a) Each state agency shall conduct a post-evaluation, by completing the post-evaluation form, of each consulting services

contract totaling five thousand dollars (\$5,000) or more that it executes. (b) The agency shall evaluate the performance of the contractor in doing the work or delivering the services for which the contract was awarded. (d) The post-evaluation shall be prepared within 60 days of the completion of the contract. (e) Post-evaluations shall remain on file at the offices of the awarding state agency for a period of 36 months following contract completion. If the contractor did not satisfactorily perform the work or service specified in the contract, the state agency conducting the evaluation shall place one copy of the evaluation form in the state agency's contract file and send one copy of the form to the department within five working days of the completion of the evaluation."

The contract General Provision item #60, STATEMENT OF ECONOMIC INTEREST, FORM 700, (Services ONLY- Consultant Contracts), states: "As a consultant you are included in the CDCR/CALPIA conflict of interest code (Title 15, section 3416) and therefore required to file a Statement of Economic Interest (SEI) pursuant to Government Code [GC], Section 87302. As such you must submit an assuming office SEI at the time of executing this Contract. Additionally, you must file an annual SEI by April 1st of each year thereafter, and a leaving office SEI within 30 calendar days of the end date or termination of this Contract.

Failure to comply with your filing obligation as set forth herein and in GC, Section 87302 will be deemed a material breach of this Contract, and may subject you to other penalties, see GC, Sections 87300, 91000, 91003.5, 91004 and 91005.5."

### **Recommendations:**

The PIA should ensure that:

- The Vendor Performance Report is submitted timely by the Contract Manager to BSS for good or poor vendor performance.
- The contractor submits the SEI, Form 700 as required in the GC. If not submitted timely, then the contract is considered void.

### **Finding 9 Improvements Needed for Bidding Process**

- PIA did not advertise their contracts in the State Contracts Register for four of the seven contracts.
- PIA awarded two contracts one day after the bid opening instead of the six calendar days as required by ISO.
- The cost sheet for four of the seven contracts did not include the name and the signature of the bidder.



**Criteria:**

The SCM, Chapter 5, Section 2, Statutory and regulatory policy reference provide information about the California State Contracts Register advertising (GC Sections 14825-14829.2).

The GC, Section 14827, states: "State agencies shall develop procedures for assuring that proposed contract opportunities are published in the California State Contracts Register as required by this article."

The GC, Section 14827.1, states: "No state agency shall award a contract unless notice thereof has first been published in the California State Contracts Registers."

The GC, Section 14827.2, states: "Every state agency shall furnish to the Department of General Services (DGS) the information required by Section 14825.1 in sufficient time for it to be published in the California State Contracts Register, so as to give potential bidders not less than 10 working days' notice prior to the contract bid opening date."

BSS-P-W004, states: "Bidder Notification – the winning bidder will be notified of the pending contract award, which will take place at least six (6) calendar days after the initial bidder notification."

A good business practice requires that some essential information be included on the solicitation documents such as the name of the bidder, signature of the authorized supplier representative that can bind the company contractually, date, etc.

**Recommendations:**

PIA should:

- Establish policies and procedures to address these issues follow the DGS requirements, or establish another method for advertising for the goods and services.
- Follow PIA's ISO manual procedures in awarding its contract.
- Implement a procedure to ensure that the bid cost sheet include the name, signature of the bidder, and the date the bid was submitted.

## **Finding 10 Unsubmitted Required Reports**

An analysis of the contract files disclosed that PIA did not:

- Submit the STD 16 to the Department of Fair employment and Housing.
- Submit the Division of Accounting Services 13 report within 5 working days to the Department of Industrial Relation - Division of Apprenticeship Standards.
- Register 4 of the 23 contracts in the State Contract and Procurement Registration System (SCPRS).

Further, the Audits Branch noted that the Agreement Summary (STD 215) was not signed by the contract analyst for 14 of the contracts. Also, the STD 215 for amended contracts was not signed for 3 out of 6 contracts.

### **Criteria:**

California Code of Regulations, Title 2, Division 4, Chapter 5, Section 8117.5, states: "Contract awarding agencies shall give written notice to the Administrator within 10 working days of award of all contracts over \$5,000 the notice shall include name, address and telephone number of the contractor; federal employer identification number, state contract identification number; date of contract award; contract amount; project location; name of contractor's agent who signed the contract; name of contract awarding agency and contract awarding officer; brief description of the purpose or subject of the contract."

California Labor Code, Section 1773.3, states: "An awarding agency whose public works contract falls within the jurisdiction of Section 1777.5 shall, within five days of the award, send a copy of the award to the Division of Apprenticeship Standards. When specifically requested by a local joint apprenticeship committee, the division shall notify the local joint apprenticeship committee regarding all such awards applicable to the joint apprenticeship committee making the request. Within five days of a finding of any discrepancy regarding the ratio of apprentices to journeymen, pursuant to the certificated fixed number of apprentices to journeymen, the awarding agency shall notify the Division of Apprenticeship Standards."

Public Contract Code 1101 defines "Public works contract," as used in this part, means an agreement for the erection, construction, alteration, repair, or improvement of any public structure, building, road, or other public improvement of any kind."

SCM, Section 10.15, states in part: “. . . agencies should Transmit reports:

- Within 10 working days of an award, send a completed STD 16 to the Department of Fair Employment and Housing if the contract award exceeds \$5,000, including contracts with the University of California.
- Within five working days of an award, send a completed Division of Apprenticeship Standards - DAS 13, to the Department of Industrial Relations if the contract award exceeds \$30,000 or 20 working days.”

DGS, BB3:08-06, dated September 29, 2008, states in part: “. . . effective immediately, the requirement to complete a Notice of Contract Award (NCA) for submission to the Department of General Services or retention in the department’s procurement file is hereby abolished.

To enable this policy change, departments must ensure they are fully complying with the statewide mandate to enter all contracts over \$5,000 in the State Contract and Procurement Registration System (SCPRS).”

A good business practice requires that all forms submitted to any State agency be signed by a person authorized to sign on behalf of the awarding agency to validate accuracy of information submitted on the form.

### **Recommendations:**

PIA should ensure that:

- All forms/documents are signed, and staff follows instructions in completing the forms for STD 215.
- The DAS 13 report is submitted to the Department of Industrial Relation, Division of Apprenticeship Standards within five working days of an award.
- DGS rules in the procurement process are followed. As of September 29, 2008 a DGS BB3: 08-06 was issued and it requires that departments must ensure they are fully complying with the statewide mandate to enter all contracts over \$5,000 into the SCPRS.

## **CAL-Card Practice Issues**

### **Finding 11 Inappropriate Authorizations and Approvals**

Inappropriate authorizations and approvals are being used for CAL-Cards and the invoices are being paid by Accounting Services.

- The approving official (AO) signatures and authorizations are not being obtained for the CAL-Card, US Bank Statement of Accounts, and CAL-Card logs.
- US Bank statements and CAL-Card logs contain “verbal authorization” or “ok to pay via phone” in place of an approval official signature.
- Someone other than the authorized AO is signing and dating US Bank statements and CAL-Card logs. A temporary alternate approving official is allowed if a memorandum is submitted to the the agency program coordinator (APC). There were no memorandums on file with the APC.
- The Cardholder’s (CH) (Administration Services, CIM) and AO’s with CAL-Cards (Administration Services, CIM) are signing/authorizing their own purchases.
- US Bank credit card slips are containing vendor signatures versus the CH’s signature (CIM).

According to AS, the original US Bank statement, that contains the AO’s original signature, are sent to SCO. An oversight may be the reason that the copies of the logs and statements maintained in accounting files did not contain the AO signature.

In addition, AS is obtaining verbal or phone authorizations from the AO when their signature is missing.

AS is paying the US Bank invoice without verifying whether the proper authorizations have been attained on the required CAL-Card documents.

AS indicated that they were authorizing CH purchases because the CHs were leaving, and they did not want to hold up the paperwork for the reimbursement.

When approvals or authorizations are not verified prior to making payments, the risk of improper purchases is greatly increased.

**Criteria:**

The PIA manual states:

**“Cardholder responsibilities and procedures:**

The Cardholder is the ONLY person authorized to use the assigned CAL-Card, and sign the purchase receipts, monthly CAL-Card log and the Cardholder Statement of Account . . . .”

**Alternate Approving Official**

In the event you cannot fulfill your duty or review and approval of the Cardholder’s Monthly Packet, an Alternate Approving Official should be named. Fax a memo to the PIA Program Coordinator stating:

- Reason for the change,
- Name of the original Approving Official,
- Length of this assignment change (requests should be for no more than one or two) billing cycles, and
- Name, title, and contact information of the Alternate Approving Official.

A copy of this memorandum must accompany the CH’s Monthly Packets each month of this change.

**Permanent Change of Approving Official:**

Approving Official Changes can only occur on the first day of the new billing cycle (28th of each month). .Therefore, these requests must be received by the 5th of the month to be reflected on the Statement of Account for the following month.

**Departure of Cardholders:**

If an employee designated as a Cardholder leaves his or her position, or when a Cardholder’s duties no longer include purchasing, as AO, you must:

“c) You will be responsible for the final Monthly Packet and reconciliation of the any outstanding purchases.”

**Recommendations:**

The AS should develop a check list to ensure the following:

- All bank statements and Cal-Card logs contain the original signatures of the authorized CH and AO.

- No verbal authorizations are being accepted and used as written authorization.
- The approving signature listed on the log and statement is the authorized or alternate AO. Ensure that the Alternate AO's memorandum is on file.
- Ensure CHs and AOs are not signing for their own purchases. Promptly report all violators to the APC for further actions.
- US Bank credit card slips contain vendor signatures versus the CH signature (CIM).

Upon notification of a CH departure, BSS should remind the AO of their responsibility of completing and timely forwarding the payment package at the end of the month.

#### **Finding 12** Prohibited CAL-Card Uses and Purchases

Cardholders are making prohibited purchases with their assigned CAL-Cards.

The prohibited purchases include:

- CHs are making split purchases which circumvent the purchasing transaction limits on their CAL-Card. (ISD) (Marketing)(IEP)
- Equipment rental contracts are being entered into with the use of the CAL-Card. (ISD)
- A CH allowed another staff member to use their assigned card until theirs arrived in the mail. (Management Information Systems (MIS))
- A CH gave a support staff member their card number to make an "over the phone" purchase. (ISD)
- The purchase of individual memberships for employees and certifications for inmates.(CIM)
- A Cal-Card was used to pay past due Mobile office rent and fees.(Folsom State Prison-Modular)
- MIS's staff are allowing CHs to purchase computer equipment with the CAL-Card.
- A CH used the CAL-Card to pay past due invoices. (Marketing and Administrative Services)

The APC only conducts audits on the two CHs assigned to his unit. No post audits are being conducted on any other PIA units with cards. Therefore, CHs and AOs are not notified when a prohibited use or purchase takes place.

Other than assigning the responsibility of checking for appropriate purchases to the AO; no internal system has been developed to track or monitor the improper use or purchases.

CH and AO refresher training courses have not been conducted.

When prohibited purchases are made and go undetected or are inadequately addressed, there is a chance of an increase in additional prohibited purchases.

### **Criteria:**

According to the PIA CAL-Card manual: "The following types of services are prohibited from being obtained using the CAL-Card:

- Requires the State to indemnify, defend, and hold the contractor harmless in the event of a claim, liability, or matter arising out of the transaction.
- Requires the State to assume responsibility for matters beyond its control (e.g. in renting equipment, regardless of the cause of the damage).
- Creates a contingent liability against the State (e.g. vendor's printed rental contracts frequently contain clauses obligating the user of rented equipment to serious contingent liabilities).

### **CAL-Card Prohibited uses**

- Membership/Professional Dues
- IT goods and services (Exception: MIS)
- Rental/Lease Agreement for Facilities
- Payments for Past Due Invoices

### **Cardholder Spending limits:**

Transactions may not be split in order to circumvent the purchase limits. Purchases for goods and one time-services, non-recurring services.

### **Cardholder Procedures**

Do not let anyone use your CAL-Card. You are personally responsible for any misuse of the account.

## **Term and Definitions**

Cardholder- the person whose name appears on the CAL-Card and who is the ONLY person authorized to make purchases on behalf of the State with this card.”

## **Recommendations:**

The BSS should ensure that:

- The APC should conduct departmental wide post audits of PIA CAL-Card purchases monthly to ensure that no prohibited purchases (i.e. split purchases) occur. When improper purchases occur, track, monitor and notify the CH and AO of improper purchases and consequences of repeated improper purchases.
- Reemphasize to CHs that equipment rental contracts are not to be entered into or revisit the current policy that disallows rentals to occur.
- Reemphasize to CHs that no one should be allowed to use their card or card number when making over the phone purchases.
- CHs and AOs are notified and held accountable for improper purchases.
- CHs and AOs undergo a two year refresher training as required by the CAL-Card manual. In the refresher training, re-emphasize the list of prohibited purchases including memberships, rent, past due invoices and computer purchases.
- The APC should contact DGS for a detailed list of training sessions.

## **Finding 13 Untrained CAL-Card Participants**

The CAL-Card program participants are not properly trained including the CH, the AO, and the CAL-Card APC.

Based on PIA’s CAL-Card Manual, the APC is required to perform 16 CAL-Card required duties. Of the 16 duties required, the APC is only able to perform 9.

The remaining seven of the duties not performed are as follows:

- Receiving and evaluating monthly US Bank reports.
- Managing and overseeing the CAL-Card program.
- Developing and implementing controls over accounts.
- Evaluating account activity.
- Giving emergency authorizations.
- Providing ongoing program evaluations.



- Conducting post audits of documents submitted. (The APC only conducts post audits of the two CAL-Card holders under direct supervision of BSS.)

Currently, a BSS's cardholder is being charged to the ISD's CAL-Card account and the APC is unsure of how to correct the problem.

The following are the results of untrained CHs:

- Listing improper commodity codes on items purchased on the monthly CAL-Card log. Testing of 65 transactions revealed that the proper commodity code was not listed on 14 (18 percent) CAL-Card logs.
- CHs failed to obtain an itemized receipt detailing the actual purchase made or failed to list the description of the purchase on the receipt.
- A CH indicated that they received the CAL-Card training manual two months after the receipt of their card. (BSS)
- A CAL-Card was activated and over-nighted prior to training the CH (Richard J. Donovan Correctional Facility).
- CHs indicated that they do not look at the Master Service Agreements or State Contracts available prior to making a purchase.
- CHs reassign paperwork responsibilities of their card to clerical staff members. For instance: Quotes, Cal-card paperwork, and month-end reconciliation.

Lastly, the PIA CAL-Card manual has not been updated since August 2006. It contains outdated information, i.e., reports no longer in use or generated by the US Bank, and obsolete statement cut off dates.

According to the duty statement for the APC, there is only a 10 percent duty allotment for the CAL-Card program. In the past DGS performed contract reviews and approvals. Since PIA separated from DGS, the APC is now performing and overseeing the DGS duties.

Obligations of the APC have substantially been increased leaving little or no time to properly oversee the CAL-Card program. A formal BCP for an additional position, to assist in the CAL-Card program, was submitted to upper management but was subsequently denied. Therefore, the program is monitored on an as needed basis.

In the remaining duties, performed by the incumbent are:

70 percent Supervising staff and activities for procurement, full service contracts, and supervising the BSS Unit.

15 percent Develops and manages the CALPIA Contract Activity Reports to the Governor, legislature, and other State agencies.

5 percent Other work related duties.

Failure to properly train CAL-Card participants is a violation of the contract agreement with US Bank. In addition, without training no participant can technically be held responsible for any improper purchases.

When purchases are improperly coded, total expenditures for the cost center are not adequately reflected.

**Criteria:**

The CAL-Card manual states: "As a requirement of the contract with the Bank, all CHs and AOs must attend CAL-Card orientation and training before cards can be issued. PIA also requires CHs and AOs to attend refresher training every two years."

**Recommendations:**

- PIA should reallocate time and resources of the CAL-Card APC position.
- BS and AS should:
- Update the CAL-Card manual to reflect current US Bank reports, cutoff dates and CH requirements.
- Ensure and certify that CAL-Card participants receive the two year refresher training as required. Contact DGS for additional training and resources.
- Re-emphasize to CHs and AOs the importance of proper coding, obtaining itemized receipts, reviewing Master Service Agreements or State Contracts available prior to making a purchase and using the CAL-Card.

#### **Finding 14** CAL-Card Authorizations are Not Updated

The PIA's BSS's and AS's "Cardholder and Approving Official Lists" are not updated. Each contained retired CHs, retired AOs, and separated employees.

The BSS and AS lists are inconsistent with CH's authorized transaction amounts and monthly limits.

When comparing the PIA CH list to that of the online US Bank list the PIA list failed to list four new CHs.

When a CH is assigned to become a participant in the CAL-Card program, they are required to complete a "Cardholder and Approving Official Acknowledgement and Responsibility Form". The Audits Branch found that 17 (53 percent) of 32 Acknowledgement Forms were not on file. Of the 17 Acknowledgement forms, 2 were not signed or dated by the AO.

The APC position has changed three to four times within a two year period. The current APC was unaware that the list was out of date.

Lastly, there are no current policies or procedures established for systematically updating the Master List for all of PIA AOs, CHs and monthly limit changes.

When update authorizations are not maintained, the risk of improper or unauthorized purchases is greatly increased.

#### **Criteria:**

SAM, Section 8711.11, states: "Agency accounting officers will be responsible for maintaining a record of all airline company/travel agency credit cards received, issued, and returned by credit card number and name of employee. It is the agency's responsibility to see that such credit cards are returned."

The Cal-Card manual states:

#### **"Departure of Cardholders**

If an employee designated as a Cardholder leaves his or her position, or when a cardholder's duties no longer include purchasing, as the Approving Official, you must:

- promptly notify the PIA Program Coordinator.....
- return the employee's CAL-Card to the PIA Program coordinator within 3 working days.

## **Permanent Change of Approving Official**

Complete the Change in Approving Official form which is also available on PIA's Intranet and mail it to the PIA Program Coordinator."

"When you do receive the CAL-Card, you must sign the Acknowledgement and Responsibility Statement . . . ."

### **Recommendations:**

The APC should ensure that:

- The PIA's BSS and AS "Cardholder and Approving Official List" is updated and a comparison is made with the online list of participants maintained by US Bank.
- The "Cardholder and Approving Official Lists" is updated with proper authorized transaction amounts and monthly limits. This list should be distributed to the AS CAL-Card unit on a monthly basis.
- All CHs have an "Acknowledgement and Responsibility Form" signed and dated by their AO. Ensure the forms are maintained, on file in the BSS.

### **Finding 15– Abandoned Vehicles and Equipment**

On June 25, 2008, it was discovered that several vehicles and equipment remained abandoned on grounds of CDCR and PIA. It is evident that the vehicles have been abandoned for a long period of time, as they contained cob webs, spiders, and rust. (See Attachment C) Several of vehicles have been identified as being owned by PIA.

The vehicles and equipment have not been used, maintained or surveyed out. According to Senior Management, PIA notifies DGS when vehicles are no longer part of the California Fleet, and they have the option of not going through DGS to dispose of vehicles.

When vehicles are not properly disposed of, it creates an unsafe environment and gives the appearance that PIA is wasting state resources.

### **Criteria:**

The ISO manual, FA-P002, Procedures for Fixed Assets Disposal of Fixed Assets, states:

“4.1 Factory Superintendent or PIM identifies asset to be disposed and notifies Property Control Technician (if asset is determined to have value and is transferable, reference procedures for Transfer of Fixed Assets, FA P001.

4.2 Proper Control Technician access PSR (STD 152) from [www.osp.dgs.ca.gov](http://www.osp.dgs.ca.gov),....

4.3 To complete the PSR form, the Property Control Technician reference the local property control record for the correct description, make, model, serial number and property tag number of the asset(s) being disposed. The PCT chooses the appropriate “disposition code” from the list on the form and enters the code in the appropriate column on the PSR form.”

### **Recommendations:**

PIA should:

- Properly dispose of the abandoned vehicles and equipment.
- Update ISO manual to reflect current disposal procedures and options available.
- Develop procedures to ensure non-operable vehicles and equipment items are timely and properly disposed.

### **Finding 16 Unprepared and Improperly Completed Vehicle Mileage Logs.**

Vehicle mileage logs are not being consistently prepared or properly completed at PIA. The Audits Branch’s test of CIM and Central Office mileage logs revealed that the logs are being improperly completed.

For example:

- Mileage logs contain no daily entry.
- One mileage log contained a single entry in 1989 and the next available entry was in 1995 with no additional entries. (CIM)
- Several CIM vehicles did not contain a mileage log. According to CIM staff historically, they were not instructed to complete mileage logs by the prior PIA manager.
- PIA staff are using two different mileage logs, STD 273 (4/97) and PIA-095 (9/05)

When vehicle mileage logs are not properly completed there is no way of tracking or holding anyone accountable for any improper use or damage to the state-owned vehicle.

**Criteria:**

CAL-PIA policy on the use of state owned vehicles states:

“A. All drivers must complete information required on the monthly travel log for each trip taken in a state-owned vehicle...

B. The monthly travel log entries must be made at the time of travel, for each trip taken on a daily basis. All travel information must be itemized and completed on the travel log not later than the end of each day. ...

D. Failure to forward a fully completed travel log in a timely manner is grounds for denial of future use of CALPIA vehicles.

E. The following information must be provided on the monthly travel log for each trip:

- (1) The date and time of travel, including start and end time for each individual trip.
- (2) Starting point, all destinations traveled and ending point of the trip.
- (3) Mileage for each trip, including beginning and ending mileage.
- (4) Designate whether the trip was for official business or personal use.

F. For vehicles that are part of the central Office vehicle pool, or vehicles at enterprise locations which are not permanently assigned to a single CALPIA employee, that last driver to operate a CALPIA vehicle on the last work day of each month, after completing his or her travel log entries shall turn in the completed monthly travel log for that calendar month to Business and Support Services. If the vehicle was not in use on the last day of the month, and the next use is on or after the first day of the next calendar month, the first employee to operate the vehicle shall log his or her use on the log for the current month and shall turn in the monthly log for the prior month to Business and Support Services.”

**Recommendations:**

PIA should:

- Require all CIM staff to read and certify the reading of the CAL-PIA policy on the use of State owned vehicles.
- Develop monitoring procedures to ensure that PIA staff are properly and timely completing mileage logs.

- Inform PIA staff regarding the proper mileage log form that should be used.

### **Finding 17** Unmaintained PIA State Vehicles

The state vehicles at the CIM facility are not being properly maintained. Routine maintenance on the cars is not being performed. Maintenance records are not being completed on each vehicle as required. The vehicles are going to the shop on an as needed basis. No preventive maintenance is being performed.

According to CIM management, a prior warehouse manager was in charge of maintenance on all of the CIM vehicles. After his departure no one had been re-assigned the task of maintaining the vehicles. According to BSS, each PIA facility is responsible for the maintenance and upkeep of their assigned vehicles.

When proper maintenance is not being performed on vehicles, it puts the driver at risk of operating an unsafe vehicle. In addition, PIA is not properly complying with manufacturer warranty requirements resulting in the reduced life of the vehicle.

#### **Criteria:**

CAL-PIA policy, for the maintenance of state owned vehicles, requires that CALPIA employees comply with the following minimum preventative maintenance requirements to ensure that CALPIA vehicles are operationally safe, comply with manufacturer warranty requirements, and provide many years of use.

- A. Perform designated services and mechanical inspections at intervals prescribed in Preventative Maintenance Schedule/Safety Inspection Worksheet, (OFA 35).
- B. Maintain maintenance logs to ensure that vehicles are repaired on a preventive maintenance schedule.

#### **Recommendations:**

- CIM develop a routine preventive maintenance schedule for all vehicles.
- CIM ensure that maintenance records are properly documented and maintained in files.
- To ensure proper vehicles safety, develop a policy that requires all facilities to annually submit a maintenance schedule on all vehicles to the BSS.

### **Finding 18** No Written Quotes for CAL-Card Purchases Over \$1,000

Quotes are not being obtained for CAL-Card purchases over a \$1,000. Testing of 28 CAL-Card purchases that were over \$1,000 revealed that written quotes are not being obtained prior to making a purchase. None of the 28 transactions tested contained a quote. In addition, there is no documentation justifying why no quote had been obtained. In addition, the Fair and Reasonable/Best value Certifications on the CAL-Card log are not being consistently completed and initialed by CHs. The Audits Branch tested 65 certifications/initials of CHs. Twenty-three (35 percent) of 65 transactions were not certified by CHs.

The Audits Branch does not know whether there is an actual attempt being made to get the Best Value or Fair and Reasonable pricing for procurement purchases over \$1,000.

AOs are not ensuring quotes are being obtained by CHs using the PIA 108 quote form.

When quotes are not obtained, there is no assurance that the purchase amount is Fair and Reasonable and of Best Value.

#### **Criteria:**

The PIA CAL-Card manual states: "Purchases of \$1,000- \$24,999 . . . . Obtain 3 or more quotes from reputable suppliers, unless there is a determination made there are not 3 available suppliers. Additional documentation must be provided if less than three quotes could be obtained, explaining why. Quotes may be faxed but must be in writing from the vendor and fully documented supplier's information... Quotes must be detailed, since the vendor's response will be the legally binding agreement between PIA and the vendor..."

#### **Recommendations:**

The PIA should:

- Remind CHs and AOs that purchases over \$1,000 require three written quotes or written justification on why three quotes have not been obtained.
- Reinforce the completion of the Cal-Card Quote form PIA 108 and require that the document be included in the CAL-Card payment package.



**Finding 19** Repetitive Replenishment of Milk Crates, Bread Baskets and Dolly Purchases

Milk Crates, Bread Baskets, and Dollies constantly have to be replaced at CSATF.

The following are numerous costs that CSATF has incurred for the repeated purchases of dollies, milk crates and bread baskets from the vendor Pinckney Molded Plastics Inc.

<b>P.O. Number</b>	<b>Date</b>	<b>Description of purchase</b>	<b>Amount</b>
201175	7/26/06	Milk Crates(Qty 9600)	\$ 47,520
206265	10/24/06	Food, package, Bread, shipping basket w/ logo(Qty 2200)	10,032
206265	10/24/06	Food Package, Bread, transport dolly(Qty 500)	16,400
206265	10/24/06	Incoming freight	3,250
310026	1/31/08	Black Bakery Tray w/ PIA logo (Qty 3000)	18,540
310026	1/31/08	Black Bread Dolly w/castors (Qty 250)	6,190
<b>Total</b>			<b>\$101,932</b>

CSATF staff indicated that crates are sometimes being used for many other different uses, other than its sole purpose by the institution staff and customers.

All orders are being delivered by the PIA's "On Time Delivery" (OTD) unit. The orders are picked up from the factory and delivered to the customer. When another visit or delivery is made, OTD will transport back the empty bread baskets, crates, and dollies, and place them next to the PIA warehouse.

According to staff, bread baskets, crates, and dollies are not being properly and consistently returned, causing the repeated costly purchase of the items. In addition, there are numerous customer complaints of food items being placed on the floor versus placed in the dolly carrier.

There is no system in place to properly identify which bread basket and dollies and crates were returned by which customer, as they are not color coded or numbered. Lastly, the current policy does not specify when dollies are to be returned by the customer.

**Criteria:**

According to the PIA Food/Agriculture Conditions and Terms (FACT), Contract # Food Packaging 2006/07, Contract Condition, states: "SHORTAGES of empty baskets and transport dollies (not returned and/or return receipt left blank will be counted as 0 returned) will be invoiced on a monthly basis at the following rates:

Shipping baskets.....\$ 4.50 each  
Transport dolly.....\$35.50 each"

**Recommendations:**

CSATF should develop a system that:

- Labels or tags each individual bread basket, milk crate, and dolly with a CSATF/Enterprise logo.
- Specifically identifies which dolly, bread basket, and milk crate, were delivered and returned by each customer.
- Incorporates specific OTD processes of which items were delivered and returned to warehouse.

**Finding 20 Untimely or Reimbursed CAL-Card payments.**

US Bank CAL-Card payments were not paid timely or reimbursed. As part of testing, the Audits Branch selected 11 scheduled US Bank Revolving Fund payments that were paid by the AS Section. Seven (64 percent) of the 11 invoices reviewed were not paid timely. Any revolving fund check prepared more than 45 days from bank statement date were considered to be untimely.

The untimely payments ranged from 46 days to 67 days. (See Attachment A)In addition, the reimbursement scheduling of the payments made through the revolving fund claim schedule process are not timely. Untimely reimbursements ranged from 97 to 242 days. (See Attachment B)

Though late payments have occurred, it is noted that PIA has not paid any late fees to the US Bank during the audit period of January 1, 2007 through February 29, 2008.

According to AS staff, untimely payments and reimbursements are frequently because:

- CHs are not forwarding the authorized payment documents, invoices, receipts, and credit memorandums timely.

- AOs have failed to prepare and forward the CH's paperwork timely to AS as required for CHs that have left PIA due to illness or for other reasons.
- CHs have not been granted on-line access to the US Bank website to retrieve US Bank statements within the allotted timeframes as indicated in the Cal-Card Manual.

There is no accountability or sanctions enforced when CHs and AOs fail to submit proper and timely paperwork.

When payments are not made to the US Bank within 45 days the risk of late fees accruing are greatly increased.

### **Criteria:**

The California Prompt Payment Act (the Act) GC, Section 927, et seq., requires State agencies to automatically calculate and pay the appropriate late payment penalties (as specified in SAM, Section 8474.2) if they fail to pay properly submitted, undisputed invoices on the date required by the contract or specific grant, which shall not exceed 45 days; or if a payment date is not specified in the contract or specific grant, within 45 calendar days of receipt of the invoice. The DGS will not approve contracts with invoice payment terms exceeding 45 days.

According to the CAL-Card manual "Payments must be received by the Bank within 45 calendar days from the statement date, or late fees start accruing."

### **Recommendations:**

AS ensure that:

- CAL-Card payments are made within the 45 day requirement.
- CAL-Card reimbursements take place within the month or shortly after the RF payment is made to US Bank.
- AS re-evaluate the CH's and the AO's timeframes for submitting the Cal-Card paperwork.
- BSS and AS identify and track CHs and AOs who fail to timely forward the Cal-Card paperwork. Use results as basis for re-evaluating program enforcement and decisions on CAL-Card renewals.
- To expedite submission of CH paperwork, the APC should work with the US Bank to ensure all CHs and AOs have online access to monthly statements as indicated in the CAL-Card manual.
- BSS develop accountability or sanctions when CHs and AOs fail to submit proper and timely paperwork.

**Finding 21** Unmaintained Vendor Payee Data records.

“Payee Data Records” are not being properly maintained in AS files. The Audits Branch selected 17 Payee Data Records (STD 204) to review. Of the 17 Payee Data Records, 4 (25 percent) could not be located in the AS files.

The vendor number is not being completed on the CAL-Card log. Testing of CAL-Card logs revealed 15 of 31 vendor numbers were not completed by the CH.

According to staff, vendor data information is inputted in the Enterprise Resource Planning Computer System (ERPix) and hard copies are sometimes lost or misplaced.

When Payee Data records are not properly maintained, it is a violation of State policy and hinders the accounting office in identifying which vendor payments are reportable.

**Criteria:**

The SAM, Sections 8422.190 and 8110, state in part:

“Reportable Payment Identification and Classification Requirements (Renumbered and Revised 2/99)

1. Required Payee Data Record form, STD. 204. See 8422.190 Illustration 1 through 8422.190 Illustration 1 (Continued 1).

A completed STD. 204 must be obtained whenever a state agency engages in a transaction that leads to a payment to any individual or any entity that is not a governmental entity. The information provided in this form must be used in conjunction with reportable transaction markers in the UCM .....to select the payments that are reportable from the payment history files, through electronic data processing methods.

In order to obtain the data necessary to determine what payments are reportable, the STD. 204, must be completed by the vendor and attached to each contract. For non-contract transactions, this form must be completed by the vendor and retained in the state agency's business services or accounting office as determined by state agency policy.”

The PIA manual, states: “Accounting office, 1. Ensure a Payee Data Record (STD. 204) is on file for each vendor”

## **Recommendations:**

AS should:

- Maintain "Payee Data Records" in files.
- Develop procedures that ensure CAL-Card purchases have a corresponding vendor data record on file.

BSS should:

- Reemphasize to CHs the importance of listing the vendor number on the CAL-Card log.

## **Procurement Practice Issues**

### **Finding 22 PO Authorization Issues**

The Audits Branch found the following issues when reviewing the POs and requisitions for proper authorizations.

California State Prison Lancaster was not processing its purchases for amounts over \$25,000 through the BSS. As a result, the PIA Procurement Officer did not approve these POs as required. For fiscal year (FY) 2007, there were 34 POs for over \$25,000 with the highest PO being \$52,968.

Six of 242 POs tested or 2 percent were not signed. Furthermore, the accounting office paid these purchases even though they had not been approved. The unsigned POs were under \$25,000, and did not require processing through the BSS.

Four of 195 requisitions tested were not signed.

Unsigned POs and requisition forms violate PIA policies and can result in the following:

- Increased risk of fraudulent purchases being processed.
- Goods being returned for a refund.
- Person making the unauthorized purchase may be held personally liable for the cost of the purchase.

ISO Document number BSS-P-W015 (dated July 1, 2007), Section 4.6 states the following:

"4.6 HOW TO PROCESS FORM 13 FOR FIELD PURCHASES – AMOUNTS \$25,000 AND OVER...

4.6.2 Designated field staff: Fax Form 13 package to BSS Contract Analyst.

4.6.3 BSS Contract Analyst: Review Form 13 package and route for management approval...

4.6.4 – BSS support staff: Upon management approval, convert ERPlx requisition to ERPlx PO in PUR650 for Procurement Officer or designee's signature...

4.6.4.2 Upon the Procurement Officer's approval of ERPlx PO, fax to vendor to initiate purchase..."

The PIA-099 standard PO form distribution instructions provide that copy 2 of the form be sent to the BSS.

ISO Document No. BSS-P-W003 (Section – 4.6) provides that POs \$24,999 and under be signed by a field administrator/manager Signature Authority at different levels.

**Dollar Amount Signature Authority**

\$24,999 and under, - Field –Administrator/ Lead Manager/ Manager central Office – AGM [Assistant General Manager]."

**Recommendations:**

- Ensure that all POs are signed and approved by an authorized PIA staff.
- Process payments when proper authorization has been obtained.

**Finding 23 Purchase Order Processing**

California State Prison, Lancaster, Chuckawalla VSPW, and California Correctional Institution at Tehachapi were not filing their POs for under \$25,000 with the BSS Procurement Office. Furthermore, the staff handling "On Time Delivery" at CSP, Corcoran was not sending copies of Grainger, Inc. purchase orders to BSS as required.

Failure to file POs for under \$25,000 with BSS may have been due to a memorandum sent to PIA institutions in April 2006 instructing them **not** to send their orders to BSS. This instruction was subsequently reversed via ISO Document # BSS-P-W015 dated July 1, 2007.

**Criteria:**

The PIA-099 standard PO form distribution instructions provide that copy 2 of the form be sent to the BSS.

ISO Document # BSS-P-W015 (dated July 1, 2007), Section 4.5.1.4 concerning purchases of amounts under \$25,000 provides that designated field staff “Send copy of Form 13 and ERPlx PO package (including bids/quotes or relevant documents) to BSS for documentation.”

**Recommendations:**

- Periodically remind the above institutions of the PO processing and filing requirements.
- Periodically review files to verify that Institution POs are being sent to the central office.

**Finding 24 Conflict of Interest Statements**

Conflict of interest statements have not been completed by PIA staff involved in the procurement process since 2003. Conflict of interest statements should be signed by employees who solicit bids, prepare requisition requests, prepare purchase documents, approve purchase orders, receive goods, and approve payments.

In addition to violating GC, Section 19990, and PIA policies, failure to require procurement staff to complete conflict of interest statements increases the risk of improper purchasing practices.

On September 30, 2008, subsequent to fieldwork, the Business Service Staff provided the Audits Branch a copy of the memorandum dated October 28, 2008. This memorandum directs all employees on the signature authority list to have a conflict of Interest Certification on file with BSS.

**Criteria:**

ISO Document # BSS-P-W002 (dated 10/20/06), Section 4.2 states the following: “Conflict of Interest: No employee shall conduct procurements in a manner that is illegal or unethical or gives rise to a conflict of interest. Form PIA-092 (for reference only) covers all manner of conflict of interest and should be reviewed and signed by all PIA employees . . . .”

GC, Section 19990, states: “A state officer or employee shall not engage in any employment, activity, or enterprise which is clearly inconsistent, incompatible, in conflict with, or inimical to his or her duties as a state officer or employee . . . .”

**Recommendation:**

Ensure that all staff involved in the procurement process have a signed conflict of interest statement on file.

## **Finding 25 Service and Expense Orders**

Service and Expense (S&E) Orders are a contractual agreement to acquire services that are a one time expense for an urgent need costing less than \$5,000 in a twelve-month period per vendor.

Seventy-one S&E orders, issued during the audit period, were above the maximum amount of \$5,000. For example, there were 18 S&E orders over \$15,000 and one S&E order was for \$31,120.

Also, the Audits Branch found 47 instances where there were two or more S&E orders for the same vendor. These S&Es were individually under \$5,000, but when totaled they exceeded the \$5,000 ceiling per vendor.

For example, there were 15 S&Es totaling \$57,740 that were paid to the Office Team during FY 2006/07.

### **Criteria:**

ISO Procedure # BSS-P-P002, Section 3.8, states in part that a S&E Order is: "A contractual agreement to acquire service that are routine in nature costing less than \$5,000 in a twelve-month period, per vendor . . . . The use of S&E's is NOT encouraged unless used to acquire services with low liability risk, such as maintenance agreements for copiers and equipment, but only when labor is the main value..."

### **Recommendations:**

- Periodically run an ERPlx report identifying S&E Orders over \$5,000.
- Provide training that addresses the S&E usages and dollar limits.

## **Finding 26 Purchase Order Splitting**

The test of POs revealed 4 instances where two or more orders were issued to the same vendor on the same day and 1 instance where 2 orders were issued within 2 days of each other. (See attachment D)

Four instances totaling \$396,676 occurred at the Cleaning Product Factory in Lancaster. Of this amount, \$264,296 was purchased in July 2007. All of these instances involved the purchase of soap from the Dial Corporation. According to the PIA manager at Lancaster, separate POs were issued based on how much a truck could deliver in one load. If an order required three truck loads, they would issue three POs.



The other instance occurred at the Modular Building Factory. Specifically, two POs, where the total exceeded the \$25,000 delegation authority, were issued within two days of each other. The procurement staff did not know why the two orders were issued within this short time period. (See attachment D)

**Criteria:**

ISO, BSS-P-W003, Section 4.1, states: "Purchasing dollar limits are "per order" and apply to all purchases not made pursuant to a contract. **Splitting an order to circumvent the specified dollar limit is strictly prohibited** (PCC, Section 10329)."

ISO, BSS-P-W003, Section 4.6 provides for the following signature authority to award:

\$24,999 and under Field –Administrator/Lead Manager/Manager Central Office – AGM

\$25,000 to \$74,999 Procurement Officer or Designee

\$75,000 and Over Assistant General Manager, Administration

**Recommendation:**

Inform the procurement staff that splitting POs circumvents the delegation authority and violates PIA policies.

**Finding 27** Unsigned Request for Quotes

There were 33 instances out of 99 POs reviewed where the "Request for Quote for Goods" form wasn't signed by the vendor. For phone quotes, the person giving the quote was not written on the form. In addition, the Audits Branch found some institutions had developed their own form for requesting quotes.

Failure to require vendor signatures on quote request forms violates PIA procedures and reduces accountability in the procurement process.

**Criteria:**

ISO, BSS-P-F005 the sample "Request for Quote for Goods" form has a signature line for the person authorized to provide the quote.

It is good internal control to require management authorization and approval for changes to standard documents.

## **Recommendations:**

Inform the procurement staff that:

- The Request for Quote for Goods must include the signature of the person giving the quote. If a phone quote, PIA procurement staff should write the name of the person giving the quote on the signature line.
- The Standard PIA forms should not be modified unless approved by management.

## **Finding 28 Duplicate Purchase Order Tracking Numbers**

The Business Services Section uses an 11 digit code to track and file its POs. The Audits Branch found the following issues in assigning Purchase Order Tracking numbers used by the Business Services Section to track PIA purchases.

There were 12 instances at 8 institutions where the same PO tracking number was used a second time (See attachment E). It should be noted that the PO number assigned in ERPLx did not create a duplicate payment.

This was the result of institution staff not writing the vendor name on the Purchase Order Log Sheet when the PO Tracking number was initially assigned. As a result, it appeared that the log number had not been used and was assigned again for the following purchase. (See attachment E)

Ninety-three purchases totaling \$124,262, from the supplier Grainger, were processed at [CSP, Corcoran] Corcoran, Wasco State Prison, and the On Time Deliver Center using an invalid code for the 1st two digits of the tracking number. Specifically, Grainger POs were coded as GR rather than using the standard code "PO."

When the Audits Branch reviewed the Grainger purchases from these facilities, the following deficiencies were found:

- A form developed at CSP, Corcoran was being used rather than the PIA purchase order form, PIA-099.
- The PIA Requisition Form 13 (BSSP-F001) was not being prepared.
- Grainger purchases were not being processed through the ERPlx procurement module.

- Failure to properly code purchases and use authorized PIA forms and documents not only violates policies and procedures, but can result in a lack of accountability in processing procurement transactions, and erroneous reports being prepared.

**Criteria:**

Good internal control requires that procurement documents be controlled by sequential numbering systems to assure proper accountability. In addition, good internal control requires that only authorized numbering codes be used.

**Recommendations:**

- Periodically run an ERPlx report to identify purchase order tracking numbers that are not valid or have been used more than once.
- Training should be provided to PIA staff involved in the procurement process that addresses the use of tracking numbers.

**Finding 29 Undocumented Single Quote Purchases**

In the analysis of 118 single source purchases, the Audits Branch found the following deficiencies:

Forty-one of the 118 (35 percent) had neither an explanation under the Fair and Reasonable Pricing section of Form 13 nor a Sole Source Justification attached.

Twenty-nine of the 118 (25 percent) had invalid explanations on the Fair and Reasonable Pricing Section of Form 13. However, the Audits Branch found that most were either using the wrong category or had no documentation supporting the category marked. For example, the controlled pricing method is being used for purchasing proprietary parts from a vendor. However, controlled pricing is to be used when the price offered is set by law or regulation.

Fifteen of the 29 POs were above \$1,000 and 14 were below \$1,000.

The Fair and Reasonable Pricing methods are Controlled Pricing, Price Comparison, Historical Pricing, Catalog/Market, and Cost/Benefit.

**Criteria:**

ISO, BSS-P-W015 – Form 13 Requisition Excel Version Work Instructions pages 2 and 3, states:

“3.2 Fair and Reasonable Pricing, GC, Section 14838.5(c) – An assessment to determine if a proposed price is reasonably close to what would be paid by another prudent buyer under similar circumstances. Used for goods, services or information technology under \$5,000.

#### 4.2 Purchases Under \$1,000 (Field and Central Office)

##### 4.2.1 CM: Use prudent judgment and comparative pricing.”

PIA’s Policies and Procedures Manual, Section 3210, pages 6 and 12, (February 9, 2007 Draft). Purchases less than \$1,000, states:

Page 6, states: “Prudent judgment is required with best value in mind and **comparative pricing must be used** whenever practical. **Documentation must be prepared** for each purchase justifying the method used to substantiate prudent judgment.” (Emphasis added)

Page 12, states: “Low cost items often do not lend themselves to competitive bidding, or quotes. Prudent judgment is required **and comparative pricing should be used** whenever practical. Buyers complete the required form and **document the basis for determining best value price**”. (Emphasis added)

Emergency Purchases, Policies and Procedures Manual, Section 3210, pages 11 and 12 (February 9, 2007 Draft) states in part: “. . . the following requirements shall apply:

The Contract Analyst shall be contacted as soon as possible for advance approval, which may be given verbally to cover the urgent transaction. If unable to contact the Contract Analyst or the Procurement Officer, place the order and contact the Contract Analyst the next workday.

All purchase orders for emergency purchases shall be signed by the Administrator, or Chief of Business and Support Services or the Assistant General Manager, Administrative Services Division.

The appropriate Administrator or AGM shall submit documentation explaining the circumstances and nature of the emergency purchase. The Procurement Officer or designee, shall review the submission and, if there are any concerns with the emergency purchase, shall communicate with the involved Administrator or AGM and resolve the issue . . . .”

#### **Recommendations:**

- Provide training on the use and documentation of Fair and Reasonable Pricing methods.

- Periodically review the Fair and Reasonable Pricing section of Form 13 to assure that it is being properly completed.

### **Finding 30 Incorrect Commodity Coding**

Errors were found in the coding of commodity items entered on the POs. These codes determine the general ledger or inventory account in which the purchased items are recorded.

Specifically, PIA commodity coding errors were found on 9 out of the 220 POs tested or 4 percent. The Accounts Payable section, which reviews the POs for proper coding, corrected 1 out of the 9 POs prior to processing for payment.

Incorrect coding can result in inaccurate general ledger accounts, inventory records, budgeting reports, and operational reports.

#### **Criteria:**

The Form 13 instructions in ISO Document No. BSS-P-F001 states the following: "O. Enter the following: PIA commodity code from Commodity Code Listing or item number from ERPlx Item Master List . . . ."

#### **Recommendations:**

- Provide training for the institutions on PIA General Ledger/Commodity Codes.
- Review the General Ledger/Commodity Code list and updated the descriptions when necessary.

### **Finding 31 Open Purchase Orders**

There were 127 open POs over a year old as of June 10, 2008. As shown in the following table, 1 purchase order dated back to 2002.

<b>Open Purchase Orders</b>	
Year	Number of Open PO
2002	1
2003	1
2004	1
2005	1
2006	47
2007 (POs included until May 31, 2007)	76
<b>Total</b>	<b>127</b>

There is a monthly review process to close out invalid open POs. Specifically; the Accounting Services Office currently forwards a report of open POs to the Operations Division on a monthly basis. The report is then broken down by facility and distributed by email to PIA facilities. The facilities are supposed to review the report and take action to close POs that are no longer valid.

However, there still remain some POs on the books that are no longer valid.

**Criteria:**

Good internal control requires the closing of invalid POs.

**Recommendations:**

The Business Services Section should:

- Periodically meet with accounting and operation staff to assure that old and open POs are being reviewed to determine their validity.
- Continue the current process of reviewing open PO and evaluate and modify when necessary.

OFFICE OF AUDITS AND COMPLIANCE  
AUDITS BRANCH

PRISON INDUSTRY AUTHORITY

GLOSSARY

<b>A&amp;E</b>	Architectural; and Engineering
<b>AGM</b>	Assistant General Manager
<b>AO</b>	Approving Official
<b>APC</b>	Agency Program Coordinator
<b>AS</b>	Accounting Services
<b>BSS</b>	Business Services Section
<b>CDCR</b>	California Department of Corrections and Rehabilitation
<b>CH</b>	Cardholder
<b>CIM</b>	Correctional Institution for Men
<b>CIW</b>	California Institution for Women
<b>CSATF</b>	California Substance Abuse Treatment Facility
<b>CSP</b>	California State Prison
<b>DAS</b>	Division of Apprenticeship Standards
<b>DGS</b>	Department of General Services
<b>ERPIx</b>	Enterprise Resource Planning Computer System
<b>FY</b>	Fiscal Year
<b>GC</b>	Government Code
<b>IEP</b>	Inmate Employment Program
<b>IFB</b>	Invitation for Bids
<b>ISD</b>	Industrial Services Division
<b>ISO</b>	International Standards Organization
<b>IT</b>	Information Technology
<b>MBE</b>	Modular Building Enterprise
<b>MIS</b>	Management Information Systems
<b>NCB</b>	Non-Competitive Bid
<b>OAC</b>	Office Of Audits and Compliance
<b>OFA</b>	Office of Fleet and Asset
<b>OLS</b>	Office of Legal Services
<b>OTD</b>	On-Time Delivery
<b>PCC</b>	Public Contract Code
<b>PCT</b>	Property Control Technician
<b>PIA</b>	Prison Industry Authority
<b>PO</b>	Purchase order
<b>PSR</b>	Property Survey Report
<b>RFP</b>	Request for Proposal

<b>RJD</b>	R.J. Donovan Correctional Facility
<b>SAM</b>	State Administrative Manual
<b>S&amp;E</b>	Service and Expense
<b>SCM</b>	State Contracting Manual
<b>SCO</b>	State Controller Office
<b>SCPRS</b>	State Contract and Procurement Registration System
<b>STD</b>	Standard
<b>STD 215</b>	Agreement Summary
<b>VSPW</b>	Valley State Prison for Women



### Untimely Cal-Card Payments

<i><b>Claim schedule #</b></i>	<i><b>Claim schedule date</b></i>	<i><b>R/F check #</b></i>	<i><b>R/F check date</b></i>	<i><b>R/F check amount</b></i>	<i><b>Reasons for late submission</b></i>	<i><b>Number of days b/statement &amp; check date</b></i>
<b>C780031</b>	6/9/08	201052	2/8/08	\$24,125.47	Missing Paperwork (MIS)	122
<b>C780032</b>	6/9/08	201373	2/28/08	\$14,349.50	Cardholder departure (IEP)	102
<b>C780033</b>	5/5/08	200870	1/29/08	\$47,010.36	Missing receipts (ISD)	<b>97</b>
<b>C780044</b>	7/1/08	201055	2/8/08	\$80,739.40	Cardholder departure (ISD)	144
<b>C780035</b>	6/6/08	201371	2/28/08	\$14,349.50	Missing Paperwork (MIS)	99
<b>C890001</b>	9/26/08	201925	4/2/08	\$89,490.24	Missing Paperwork & signatures (MIS)	177
<b>C780047</b>	7/8/08	201372	2/28/08	\$63,273.41	Cardholder out ill (ISD)	131
<b>C890002</b>	7/31/08	200648	1/15/08	\$10,834.12	Missing invoices and signatures (ISD)	198
<b>C890003</b>	8/11/08	200249	12/13/07	\$24,483.51	Cardholder out ill (Marketing)	<b>242</b>
<b>C780036</b>	6/6/08	200248	12/13/07	\$18,284.31	Cardholder departure (MIS); Missing invoices(BSS)	176
<b>C780040</b>	7/8/08	200250	12/13/07	\$35,110.48	Missing invoices (ISD)(Modular)	208

Untimely reimbursements

<b>Claim schedule #</b>	<b>US Bank Statement Date</b>	<b>R/F check #</b>	<b>R/F check date</b>	<b>R/F check amount</b>	<b>Number of days b/statement &amp; check date</b>
<b>C780031</b>	12/24/07	201052	2/8/08	\$24,125.47	<b>46</b>
<b>C780032</b>	1/22/08	201373	2/28/08	\$14,349.50	37
<b>C780033</b>	11/23/07	200870	1/29/08	\$47,010.36	<b>67</b>
<b>C780044</b>	12/24/07	201055	2/8/08	\$80,739.40	<b>46</b>
<b>C780035</b>	1/22/08	201371	2/28/08	\$14,349.50	37
<b>C890001</b>	2/22/08	201925	4/2/08	\$89,490.24	40
<b>C780047</b>	1/22/08	201372	2/28/08	\$63,273.41	37
<b>C890002</b>	11/23/07	200648	1/15/08	\$10,834.12	<b>53</b>
<b>C890003</b>	10/22/07	200249	12/13/07	\$24,483.51	<b>52</b>
<b>C780036</b>	10/22/07	200248	12/13/07	\$18,284.31	<b>52</b>
<b>C780040</b>	10/22/07	200250	12/13/07	\$35,110.48	<b>52</b>

## Abandoned Vehicles





## Milk Crates, Dollies and Bread Baskets





**Purchase Order Splitting Table**

<b>Split Testing Number</b>	<b>Purchase Order</b>	<b>Vendor Name</b>	<b>Date</b>	<b>Amount</b>
<b>1. Modular Building Folsom</b> <b>Total = \$29842.72</b> <b>(Auth. &gt;\$25,000)</b>	CD087207030	SACRAMENTO HEATING & AIR COND.	7/16/2007	\$14,921.36
	CD087207033	SACRAMENTO HEATING & AIR COND.	7/18/2007	\$14,921.36
<b>2. Lancaster</b> <b>Total = \$63,000</b> <b>(Auth. &gt;\$25,000)</b>	PO255107098	DIAL CORP (THE)	11/6/2007	\$31,500.00
	PO255107099	DIAL CORP (THE)	11/6/2007	\$31,500.00
<b>3. Lancaster</b>  <b>Total = \$129,000.00</b> <b>(Auth. &gt;\$75,000)</b>	PO255107021	Dial Corp (The)	7/24/2007	\$32,250.00
	PO255107022	DIAL CORP (THE)	7/24/2007	\$32,250.00
	PO255107019	DIAL CORP (THE)	7/24/2007	\$32,250.00
	PO255107020	DIAL CORP (THE)	7/24/2007	\$32,250.00
<b>4. Lancaster</b>  <b>Total = \$135,295.20</b> <b>(Auth. &gt;\$75,000)</b>	PO255107004	DIAL CORP (THE)	7/6/2007	\$33,823.80
	PO255107005	DIAL CORP (THE)	7/6/2007	\$33,823.80
	PO255107002	DIAL CORP (THE)	7/6/2007	\$33,823.80
	PO255107003	DIAL CORP (THE)	7/6/2007	\$33,823.80
<b>5. Lancaster</b> <b>Total = \$69,400.80</b> <b>(Auth. &gt;\$25,000)</b>	PO255107147	DIAL CORP (THE)	1/17/2008	\$34,700.40
	PO255107148	DIAL CORP (THE)	1/17/2008	\$34,700.40

**Purchase Order Tracking Number Table**

<b>Count</b>	<b>Institution</b>	<b>P.O. Tracking#</b>
1	04	PO0436.07096
	04	PO0436.07096
2	05	PO05.01.07058
	05	PO05.01.07058
3	06	PO06.06.07132
	06	PO06.06.07132
4	06	PO06.07.07127
	06	PO06.07.07127
5	07	PO07.01.07031
	07	PO07.01.07031
6	19	PO19.92.07002
	19	PO19.92.07002
7	42	PO42.97.07023
	42	PO429707023
8	42	PO42.97.07024
	42	PO429707024
9	04	SE04.96.06001
	04	SE04.96.06001
10	16	SE16.97.06025
	16	SE16.97.06025
11	22	SE22.61.06013
	22	SE22.61.06013
12	22	SE22.64.06019
	22	SE22.64.06019